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Toward US-Allied Cooperation on East-West Economic Policy

1. The limited consensus achieved at the Versailles Summit on East-West economic policy has disintegrated as a result of publicly voiced interpretations of the agreement by the French and Germans which suggested a narrower agreement than we had supposed, and the US decision to expand oil and gas sanctions to include retroactive and extraterritorial elements. Although many other issues involving our relations with Western Europe, including steel, agriculture, etc., have contributed to the serious present concerns about the state of our overall relationship, the sanctions issue is by far the most disruptive because it is seen by them as constituting a direct attack on traditional national prerogatives and undue US interference in European affairs, while we see the sanctions as the only significant Western response to events in Poland. By contrast, the other issues, although involving conflicting interests, either fall within the purview of existing international rules and agreements, or can be negotiated in the framework of longstanding institutions and political processes.

2. The difficulties with our sanctions position are that (1) even if successful, it will not prevent the Soviets from meeting its contractual obligations, albeit probably at substantial cost to its domestic economy; and (2) the Europeans, who are angry at what they regard as infringement of their sovereignty, will probably try to defeat or circumvent the sanctions. Further escalation by us in other areas of trade relations might cause them to back off of their position on the pipeline but they

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might not even then and there would be further damage to US-European relations. It is, of course, possible that events in Poland in the coming months or some action by the Soviet Union anywhere may alter the politics of this issue in Europe and cause the European governments to move towards our position. The odds of this happening look low. Therefore, there is a strong case for putting the pipeline dispute into a wider setting and trying to seek agreement there.

3. Although US and West European perspectives differ a great deal on East-West economic issues, with respect to direct economic stake, political-economic linkages, and foreign policy priorities, I believe nevertheless that substantial common ground exists within the Alliance. To find this common ground and build a common approach, it is necessary to:

- (1) Conceptualize and work out a US government policy concerning East-West economic relations that meets our essential needs and that is both consistent and understandable to the Europeans--the ambiguities in US policy were a major reason for the breakdown of the Versailles agreement on East-West matters.
- (2) Consider the entire gamut of East-West economic relations, in order to find as broad a convergence of interests as possible--specific quid-pro-quos are too difficult to handle and are too sensitive to publicize.
- (3) Find a basis for positive public statements that is consistent with announced US and West European national policies.

3. I believe that these conditions might be met, and that a cooperative US-Allied approach to East-West economic relations might be

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established through the following steps: (1) informal bilateral consultations with the West Europeans on possible ways to reestablish a cooperative approach on East-West economic issues, leading to (2) ministerial level agreement among the Seven to reemphasize the Versailles agreement in a positive and cooperative manner, and (3) agreement to follow up this positive approach with a regular sherpa-level policy coordination group, as well as follow-ups through the OECD and NATO.

4. The following specific steps would be taken as part of the overall package:

- (1) The US would drop the retroactive and extraterritorial provisions of the oil and gas sanctions.
- (2) The Europeans would emphasize their willingness to:
  - (a) Minimize subsidized credits to the USSR;
  - (b) Discuss at an early stage possible plans for major East-West economic projects with the US and other members of the Alliance;
  - (c) Agree to work toward cooperative energy policies designed in part to minimize the dependence on Soviet gas; specifically, they could agree to take only the minimums under existing contracts with the Soviet Union and to attempt to develop Norway as a major source of additional natural gas;
  - (d) Accept the relevance of East-West economic relations for Alliance security, and hence for discussion in NATO, even though the OECD would be the primary organization for East-West trade and financial data collection and analysis.

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(e) Differentiate between the USSR and Eastern Europe and among East European countries in the use of government-generated credits and other government policy instruments.

5. Although political sensitivities would prevent explicit public statements on all these points, it might be possible to devise an agreed statement, based on the Summit communique, that would be sufficiently positive to justify the change in US policy on oil and gas sanctions.

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